

ER 7-0493

**SECRET**

JUN 4 1955

**MEMORANDUM FOR:** Director of the Bureau of the Budget

**SUBJECT:** Reexamination of CIA's Reimbursement Practices

1. On September 23, 1954 I informed the State Department, in connection with the USIA survey report, that this Agency in cooperation with the Department and the Bureau of the Budget was undertaking a re-examination of the method of financing State's NIS program by CIA. The attached report stemming from that reexamination endeavors to treat the subject of reimbursement as comprehensively as possible in order to cover our other reimbursement practices and to provide guidance in the conduct of this aspect of our fiscal affairs.

2. The Department of State has officially concurred in the report. This Agency has informally consulted with the intelligence agencies of the Army, Navy and Air Force to ascertain the extent of their interest in the report. They have not raised any objection to the report, although this does not, of course, prejudice their position with regard to any specific action in the future in which they would be an interested party. Representatives of the Bureau of the Budget with whom my representatives have been in consultation on this matter have stated they see no objection to the conclusions of the report from the Bureau's point of view.

3. I have approved the report and am requesting my staff to be guided by the principles and conclusions of the report.

**ALLEN W. DULLES**  
Director

Attachment

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**REEXAMINATION OF CIA'S  
REIMBURSEMENT PRACTICES**

**PROBLEM:**

1. To reexamine the existing practices of CIA regarding reimbursement to the Department of State for National Intelligence Survey (NIS) production, and services rendered by the Department with regard to external research and biographic intelligence; and to relate such reexamination to the problem of providing an adequate budget for intelligence activities important to CIA and to the national security.

**DISCUSSION:**

2. It is a principle of Government that each agency has the responsibility to obtain the funds to carry out its own responsibilities with the provision that reimbursements are encouraged when a second agency is more competent or in a position to perform more efficiently a service required by the first. However, care must be exercised that reimbursement does not subvert the intent of Congress as expressed in appropriations acts and related legislative history. The NSCID's help explain why the reimbursement problem has arisen, because the Directives set the general design for the cooperative effort of the IAC community.

3. Our intelligence system consists of five major intelligence producing and collecting agencies, which are essential to one another. Machinery exists for determining their functional responsibilities and for coordinating their intelligence activities but there is no requirement that each separate agency budget for all of the intelligence activities for which it is responsible or refrain from budgeting for unassigned and possibly duplicative activities. The collection and production of intelligence is for all of these agencies (except the CIA) a relatively small and distinctly subsidiary function within the totality of their operations. Inevitably departmental intelligence budgets (like their budgets for other purposes) are shaped in the main by departmental needs, which in turn grow out of their major functions. Yet there is no assurance that a department's functional responsibility to collect or produce a particular kind of intelligence, which presumably reflects the needs of the intelligence community as a whole, will coincide with its own felt need for that intelligence. Therefore, budgetary provision may fall short of (or exceed) that which would be appropriate to meet a national requirement.

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4. While the budget responsibility generally is exercised by the agency charged with performance of function under NSCIDs, provision must be made to recognize those cases where departmental need is not coincident with functional responsibility. At least two of these situations may be described as follows:

a. The DCI's responsibility for coordinated programs bearing on national security in which each agency is to participate in accordance with its assigned area when such program demands are not coincident with departmental demands. In the case of clearly definable interagency programs requiring sizeable additional resources of participating agencies, it is desirable that there be a coordinated budget statement or central budgeting by CIA. In certain circumstances a combination would be appropriate. [REDACTED] is such a specific program. There may be others. Reimbursement between agencies required by such central budgeting would then be appropriate.

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b. The fact that an agency (in this study, the CIA) may levy requirements on another agency when such requirements demand use of, or establishment of facilities in excess of those required to meet the needs of the performing agency. Reimbursement in such case would then be appropriate.

[REDACTED]

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5. The sound development of the intelligence community now requires that the IAC and the Bureau of the Budget take note of these situations and adopt procedures which will identify such cases and principles which will permit cooperative effort to meet individual agency requirements and national security programs in the intelligence area.

6. In considering the reimbursement problem in current cases we have considered in each case alternative methods of meeting the intelligence needs involved and have rejected them.

CONCLUSIONS:

7. That there is no way at present of ensuring that intelligence activities, especially those of national rather than departmental interest, will be supported by the agencies functionally responsible for them on a scale that reflects the interests of the whole intelligence community as well as departmental priorities.

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8. That it is not feasible at this time to develop a statement covering all intelligence activities which would show the responsibility, measure the performance, and give the cost of each on a comparable basis because present budgetary and accounting practices do not permit the segregation of intelligence activities from other elements in departmental budgets.

9. That under these circumstances reimbursement will some times be useful as a device to ensure that intelligence programs of broad national interest, but possibly of limited departmental appeal, will be financed, and reimbursement will often be preferable in these cases to the alternative of major shifts of functional responsibility.

10. That, since the need for a coordinated review of financial support, and performance and requirements is greatest with respect to national programs, the Director should from time to time as circumstances permit, request the IAC to prepare coordinated statements of member agencies' budget needs with regard to specific national programs. A specific case in point proposed for such treatment is the [REDACTED] 25X1A

11. That the DCI should prepare with the cooperation of the IAC a statement of the annual budget needs of the members of the IAC for [REDACTED] production and to submit such a statement to the Bureau of the Budget for its information, the DCI then requesting funds for all of these needs except for the Department of Defense where it is anticipated departmental policies or the peculiarities of the budget processes within Defense would seem to require them to submit budget requests directly. 25X1A

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14. Should an issue arise as to the desirability of compiling comparable budgetary statements covering all the intelligence activities of the Government for use by the Bureau of the Budget in the budgetary estimating process prior to issuance of final allowances, the DCI should advise the Director of the Bureau of the Budget or other reviewing authority that the preparation of such budgetary statements would be impossible without major changes in the budgetary practices of the departments and agencies concerned.

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